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Property Tax collection Performance in Urban Local Bodies within Tanjavur Region

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ABSTRACT

Property tax is practice by almost all governments around the world rely to some extent on property taxation. Urban local bodies have struggled to collect tax from the property owners. There is a need to study to collection performance and to analyze how to tap their resources to fulfill the financial needs. The present study is a secondary data research collected from three ULBs of Thanjavur districts from 2004-2014.

INTRODUCTION

Property tax is generally practiced by countries around the world (Dzulkanian, 2011), almost all governments around the world rely to some extent on property taxation. Similarly, property taxes are the main sources of revenue for municipalities in Canada, United States and Australia according to (Enick Slack, 2002). However, it is not the question of property tax been accepted, but how responsive is the municipal authorities towards service provision. Since the current issue is how to increase the revenue base of Local Governments through property taxation, this has been a recurring subject to countries around the world. According to Kuppusamy, (2008) the Local Governments is a public agency that provides urban services to its communities.

In India, an increasing trend towards urbanisation has been recorded from the very beginning of this present century. The census data on the rural-urban composition reveal a continuous rise in the rate of urbanisation in India and more particularly during the second half of the present 21st century. This creates more challenges to local bodies such as waste management, sanitation, maintenance of basic infrastructure and water supply. Basic infrastructure facilities need to be created to provide services to the citizens. Lack of funds to create the infrastructure in the absence of proper resources is of major concern.

For strengthening the finances of urban local governments, two positive features were provided in the 73rd and 74th Amendments to the Constitution:

a) Provision for the constitution of State Finance Commissions (SFCs) every five years
b) Central Finance Commission (CFC) to suggest measures needed to augment the consolidated fund of the states to supplement the resources of municipalities devolved on the basis of the respective SFC recommendations.

However, the progress in the implementation of SFC recommendations in several states has not been very encouraging. The CFC has also grappled in making recommendations of resource transfer to local governments in states. However, in the absence of authentic data, successive CFCs have made recommendations for the transfers of funds for local bodies on ad hoc basis.

Local Self-Government Institutions or Local Bodies directly influence the welfare of the people by providing civic, social and economic infrastructure services and facilities in urban areas. over a period of time, the functions and responsibilities of LBs have increased considerably without commensurate enhancement of their resource base. There is a need to study to estimate and evaluate how tax collection has influence the financial performance of ULBs and to analyze how to tap their resources to fulfill the financial needs. The present study is a secondary data research collected from various ULBs of Thanjavur region from 2004-2014.

Need for the study

In India, an increasing trend towards urbanisation has been recorded from the very beginning of this present century. The census data on the rural-urban composition reveal a continuous rise in the rate of urbanisation in India and more particularly during the second half of the present 21st century. This creates more challenges to local bodies such as waste management, sanitation, maintenance of basic infrastructure and water supply. Basic infrastructure facilities need to be created to provide services to the citizens. Lack of funds to create the infrastructure in the absence of proper resources is of major concern.

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Research questions

The study indents to empirically examine the financial conditions of ULBs such as income, expenditure, collection performance and the issues related and to analyze how to tap their resources to fulfill the financial needs. The present study attempts to answer the following questions.

1. Is the present property tax collection performance good or bad?
2. Which category, year or ULB has low or high?

LITERATURE REVIEW

Pervious Municipal finance studies fell into four types: (i) those which analyse the finances of municipalities to determine whether the finances have improved or not; (ii) those which examine the specific aspects of municipal finances,; (iii) those which are to estimate the level of under-spending; and (iv) studies that analysing the reports of the Central Finance Commissions, and the State Finance Commissions. In our study, a broad literature is given under financial conditions of ULBs and revenue sharing.

Mathur and Thakur (2004) examined the fiscal performance of municipalities and assessed the load on state finances on account of the implementation of the State Finance Commission recommendations. The study further found that the expenditure levels on services provided by municipalities across states were low. Another finding of the study was that per capita expenditure-revenue gap declined over the period of 1997-98 to 2001-02. Also Bagchi (2001) analyses the nitty-gritty of alternative/unconventional modes of financing urban infrastructure.

An article provides an analytical framework for designing an effective property tax reform strategy. The first section presents a general conceptual model of property tax revenues, identifying four critical ratios that ul-timately determine the effectiveness of any property tax system—namely, the coverage ratio, the valuation ratio, the tax ratio, and the collection ratio (Kelly (2000). Also it explained that Property taxation relies extensively on Active government participation to ensure that tax base information and property values are kept up-to-date and that taxes are properly assessed, billed, collected, and enforced. Thus, any property tax reform strategy must recognize this administrative-intensive nature and the importance of direct and active government administration for its revenue buoyanc.

The following conceptual model of property tax revenue illustrates the relationship between total revenue collection and these various ratios. As the formula indicates, tax revenue is a function of two variables related to policy choices, namely tax base definition and tax ratio (TR), and three variables related to administrative action, namely increasing the coverage ratio(CVR), valuation ratio (VR), and collection ratio (CLR): tax revenue =tax base *TR*CVR*VR*CLR

A few studies that have attempted to estimate the levels of municipal under spending include Mathur et. al. 2002., and P.K. Mohanty et. al. 2007. Both studies used the expenditure norms as set by the Zakaria Committee in 1963 for estimation purposes.

Rao (2013) analyzed the property tax system in India, examines the reasons for its low revenue productivity, reviews the recent reform initiatives and identifies further reform areas. The most important reason for the low collections is the poor coverage of the tax and its low collection efficiency. Poor coverage is due to (i) wide ranging exemptions; (ii) poor information system and lack of up-to date registry of land and properties by municipal bodies; (iii) existence of vacant properties. Exemptions vary from state to state and from one municipal body to another, but there are some common exemptions.

The (alternative) hypotheses of the present study are:

1. H1: There is a significant difference between the ULBs in collection performance
2. H1: The various categories of ULB influence tax collection levels
3. H1: Collected tax amount is influenced by time period

RESEARCH METHODS

A descriptive study based on secondary data and primary is conducted. The methods and materials used for this thesis are given in this section:

3.1 Study unit: Urban local bodies are considered as sampling unit of data collection. Respective municipal commissioners are approached for the real time of various parameters.

3.2 Sources of data: The study focus ULBs in Thanjavur Region of municipal administration department comprising seven districts in Eastern Tamilnadu, India. For the same areas, the Tamilnadu government Electricity board called Tamilnadu Generation and Distribution Corporation Ltd (TANGEDCO) are approached and respected assisted executive engineer/additional divisional engineers supplied the relevant data through respective municipal commissioners.

3.3 Method of data collection: Both a schedule based primary data collection and secondary data sets from the official records. An empirical study for answering the research hypotheses carried out. Both primary and secondary data sets were collected and cross checked with other resources such as internet.

3.4 Study period: A period of 2004-05 to 2013-14 is selected for the study because of the data collection period of this doctoral research ended 2015. Further previous decade (till 2004) study is already carried out and seems outdated. Census of India data is for 2001 and 2011 period (since Indian

government accounts 10 year once) and utilized for the matching of the data.

3.5 Sampling design: A time series data for period 2004-05 to 2013-14 is selected from the ULBs of all seven districts as given below.

3.7 Measurements used: Income and Expenditure details of all heads of account, Property tax Demand and collection details, Municipal and EB assessments, Exemption details for tax, Populations sizes. These data were fully utilized for the analysis. Further, some more details such as households, areas and various smaller breakups of accounts collected and however used only for cross checking for the validity of the study variables.

3.8. Statistical Tools applied: ANOVA test, Percentage analysis.

3.9 Software packages used: Analysis was performed through SPSS 17.0.

3.10 Limitations of the study

1. The study is based on secondary data obtained from the published and unpublished official reports and as such its finding depends entirely on the accuracy of such data.

2. Statistical test used in the study to interpret the analysed data to generalize the findings of the study for the entire population has got their own limitations and result in the analysis is subject to same constraints as are applicable to statistical tools.

3. Time period of the study may be extended to meet the current sceneario.

4. However, all these limitations, do not, in any way, affect the worth of this research work.

DATA ANALYSIS

4.1 Table showing the effectiveness of tax collection within the various grades of ULBs

	N	Minimum	Maximum	Mean	Std. Deviation
Collection %	190	27.93	99.59	77.2727	12.01422

From the above table it can be seen that the mean tax collected within the groups is 77.27. The maximum is 99.59 and the minimum is just 27.93.

Table 4.2 showing the Mean tax collection in various ULBs of Thanjavur

	Mean (%)	Std. Deviation	Rank
Jayakondam	97.01	1.73	1
Vedharanyam	85.66	11.34	2
Ariyalur	85.43	7.42	3
Aranthagi	83.87	3.93	4
Sirkali	82.91	4.76	5
Thiruthurai poondi	80.92	19.41	6
Thuraiyur	80.84	8.51	7
Thiruvarur	80.05	6.94	8
Pudukottai	77.60	7.38	9
Perambhalur	77.35	12.40	10
Pattukottai	75.43	6.21	11
Mayiladurai	73.88	4.82	12
Manarkudi	73.88	4.82	13
Kothanallur	73.03	11.53	14
Manaparai	71.46	8.67	15
Thanjavur	71.25	9.37	16
Nagapattianm	68.11	9.35	17
Kumbakonam	64.88	7.57	18
Thuvakudi	64.63	17.33	19

From the above table, it can be seen that the mean tax collections from Thanjavur, kumbakonam, pudukottai, Nagapattinam, Mayiladurai, Pattukottai, Thuraiyor, Mannarkudi are 71.24, 64.88, 77.59, 68.11, 73.87, 75.42, 88.83, 73.87 respectively. And the mean tax collections from Aranthangi, Manapari, Thivarur, Ariyalur, Jeyakondam, Kothanallur, Permabhalur, Sirkali, Thiruthurai poondi, Thuvakudi, Vedharanyam are 83.87, 71.46, 80.05, 85.43, 97.01, 73.03, 77.34, 82.90, 80.91, 64.62, 85.65 respectively. The Highest Average of tax collection is recorded in Jeyakondam with mean of 97.01.

From the table, it is observed that top ten ULBs from Jayamkondam to Perambalur in percentage of collection over the long run. Among the lowest tax colleting ULBs, all the special grades and most of the selection grades are less than the mean value in collection compared to second and first grade.

This difference has been tested statistically in the following ANOVA tables.

Table 4.3 ANOVA for ULBs comparison on Tax collection performance

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	11475.078	18	637.504	6.897	.000
Within Groups	15805.482	171	92.430		
Total	27280.560	189			

From the Table, it can be inferred that the sig. value (0.000) is less than 0.05 (5 % level of significance, the null hypothesis is rejected in favor of alternative hypothesis. Therefore the means of Tax collections in ULBs differ significantly. The grade wise comparison is as follows

Table 4.4 Category wise comparison on Tax collection performance

Year	Category			
	Special grade	Selection grade	First grade	Second grade
2004-2005	55.38	68.70	69.79	72.57
2005-2006	59.84	71.89	69.47	63.95
2006-2007	69.19	76.59	74.65	76.41
2007-2008	67.36	78.18	79.22	78.00
2008-2009	58.99	63.12	75.62	74.75
2009-2010	71.84	73.94	80.44	85.75
2010-2011	70.44	77.14	80.12	86.35
2011-2012	75.25	78.17	85.18	87.07
2012-2013	73.79	79.72	84.58	91.73
2013-2014	78.56	82.11	85.53	92.11

From the above table it can be seen that during 2004 -05 in the special grade category the tax collected was 55.38 were as during 2013-14 it increased to 78.56. In the selection grade category during 2003-04 it was 68.70 were as during 2013-14 it is 82.10. In the first grade category during 2004-05 the tax collected was 69.79 were as during 2013-14 it is increased to 85.52. In the second grade category the tax collected during 2004-05 was 72.57 were during 2013-14 it is increased to 92.11.

Irrespective of the grade, property tax collection trend is positive except in 2008-09. In this year, the tax revision increased the demand resulted the drop in collection. The special grade crossed the mail value only in 2013-14 (78.56%) remaining years are less than the mean values. Selection grade recorded more than the mean from 2010-11 onwards where as both first and second graded crossed the mean at the earlier (2009-10).

Table 4.5 Table showing Tax collection percentage in various categories

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Special grade	20	68.07	8.91	1.99	63.90	72.24	51.49	79.64
Selection grade	60	74.95	7.82	1.01	72.94	76.97	47.67	93.54
First grade	30	78.46	8.42	1.54	75.32	81.61	58.85	89.10
Second grade	80	80.87	14.68	1.64	77.60	84.13	27.93	99.59
Total	190	77.27	12.01	0.87	75.55	78.99	27.93	99.59

From the above table it can be seen that, the mean tax collection percentage in the special grade category is 68.06 and in the selection grade category it is 74.95. The tax collection percentage in the First and Second grade category are in 78.46,

80.86 respectively. Both special and selection grade collection performance are less than the mean whereas both first and second are greater than the mean.

H0: The various categories does not influence tax collection levels
H1: The various categories does influence tax collection levels

Table 4.4.4b ANOVA for Grades of ULB comparison on Tax collection performance

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	3093.384	3	1031.128	7.929	.000
Within Groups	24187.176	186	130.039		
Total	27280.560	189			

From the above Table it can be inferred that Sig. value equal to 0.000 which is less than 0.05, at 5 % level of significance and F- value equal to 7.92. Therefore we reject H0 and say that the various categories influence the tax collection levels.

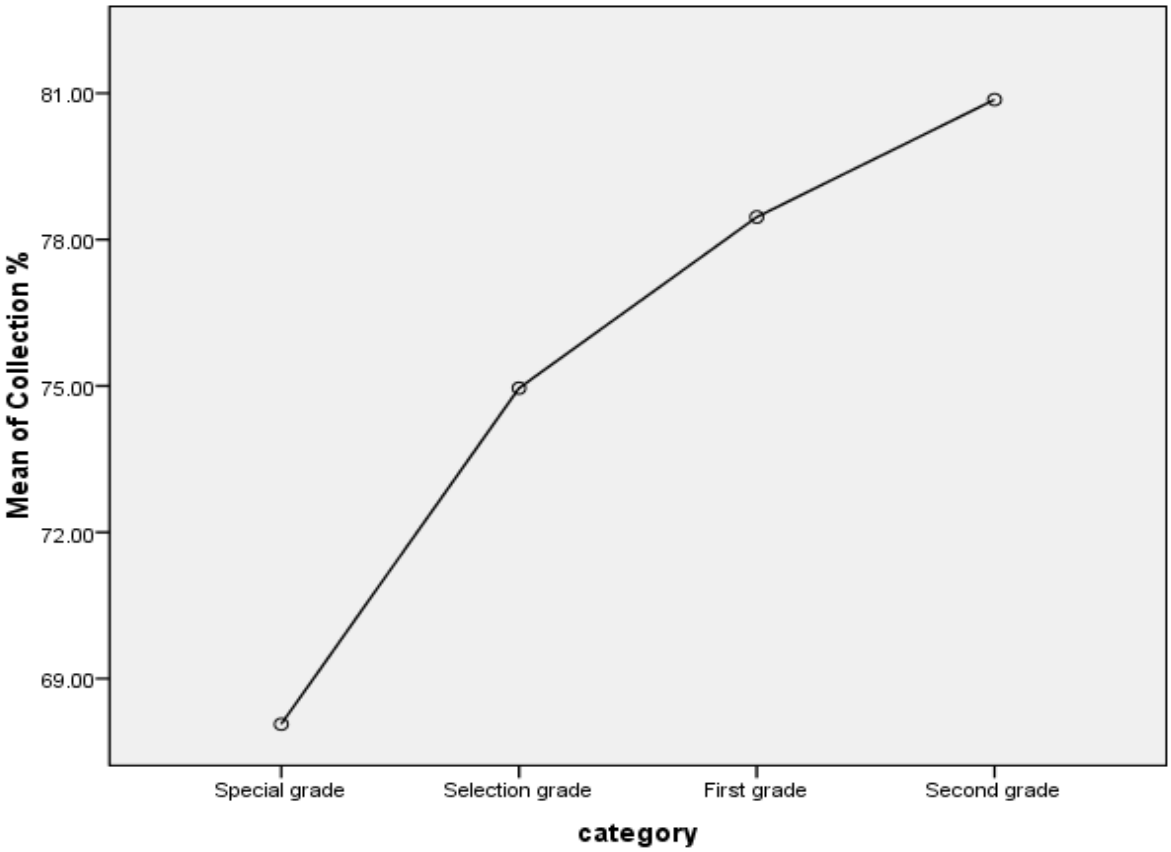

Figure: Mean of Tax collections in various categories

From the above figure it can be seen that during 2004 -05 the mean of collected tax was 69.10 it increased to 79.71 % during 2009-10, then it further increased to 86.48 during the year 2013-14.

From 2004-05 to 2008-09, the collection is less than mean of collection of 77.27 and from 2009-10 onwards the collection is more than the mean as the maximum of 86.49% in 2013-14. Collection performance is steadily increasing 2008-09 due to revision of tax the demand increased and the percentage decreased.

H0: Collected tax amount is not influenced by time period
H1: Collected tax amount is influenced by time period

Table 4.4.5b ANOVA for Yearwise comparison on Tax collection performance

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	8147.826	9	905.314	8.517	.000
Within Groups	19132.734	180	106.293		
Total	27280.560	189			

From the above table, the Sig-value is 0.000 which is less than 0.05 at 5% level of significance, and f-value is 8.517. So Ho is rejected and Collected tax amount is influenced by time period.

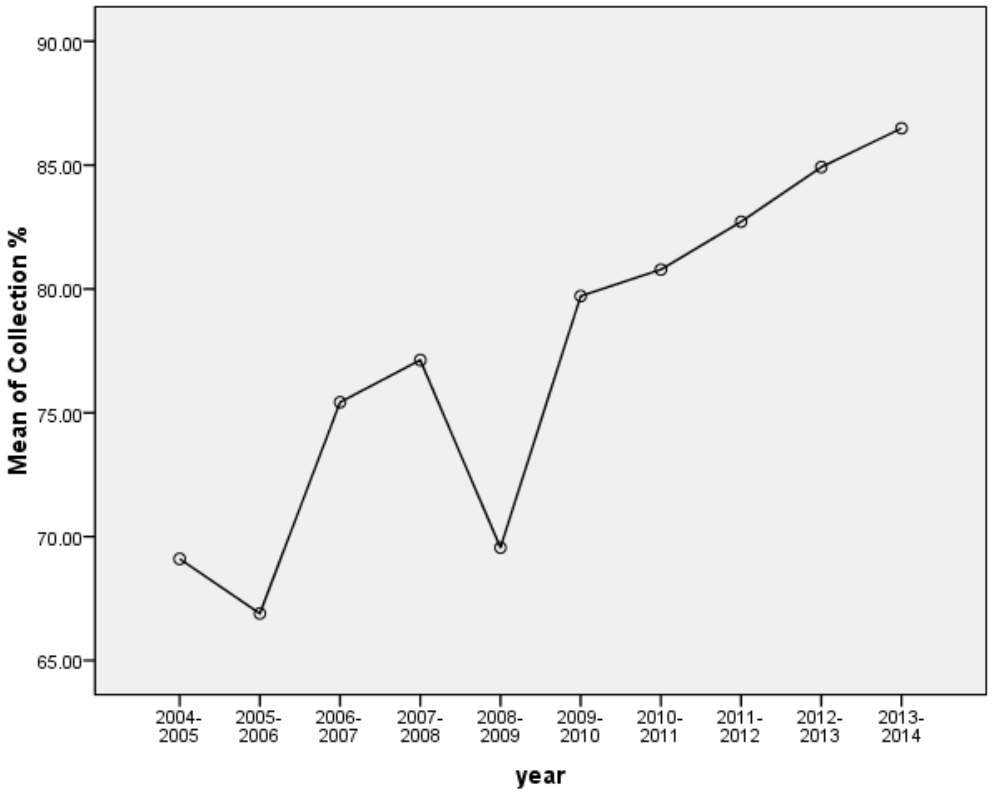

Figure: year wise percentage of collection of tax

SUMMARY AND CONCLUSION

This study addresses the Property tax collection of nineteen ULBs under Thanjavur regions. From this study it is found that Making property taxes work more effectively in India is a complex challenge. Although many "internal" and "external" factors are involved, we speculate that the future of the property tax is mainly dependent on four factors: the pace of decentralization,the efficacy of shortcuts to valuation of property, technology catch-up,and the willingness of the central governments to give local governments access to other productive tax bases Bahl & Martinez-Vazquez (2007).

However the study has some limitations such as thhe study is based on secondary data obtained from the published and unpublished official reports and as such its finding depends entirely on the accuracy of such data. However, these limitation do not affect the worth of this research work.

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